



Secretary of the Air Force  
Office of Legislative Liaison

## CONGRESSIONAL HEARING RESUME

106th Congress

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**Date: 15 Jun 2000**

**SUBJECT:** Hearing on F-22 Cost Controls

**COMMITTEE:** House Government Reform Committee  
Subcommittee on National Security, Vet Affairs, and International Relations

**CHAIRMAN:** The Honorable Chris Shays (R-CT)

**OTHER COMMITTEE MEMBERS PRESENT:** CM John Tierney (D-MA)  
CW Schakowsky (D-IL), CM Bob Barr (R-GA)

**WITNESSES:** Mr Allen Li, Associate Director, National Security and International Affairs Division, US  
General Accounting Office (GAO)  
Mr Leonard Benson, Senior Evaluator, National Security and International Affairs Division,  
GAO  
Mr Donald Springman, Senior Evaluator, National Security and International Affairs Division  
GAO  
Mrs Darleen Druyun, Principal Deputy Assistant Secretary of the Air Force for  
Acquisition and Management  
Mr Joseph Kammerer, Deputy Assistant Secretary of the Air Force for Cost  
and Economics  
Dr George Schneider, Director of Strategic and Tactical Systems, Office of the Secretary of  
Defense (OSD)

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**Prepared by: Lt Col Mike Kennedy**  
**Phone number: 697-6711**

**Date: 15 Jun 2000**

## **EXECUTIVE SUMMARY**

The Subcommittee convened this hearing to examine the status of the Air Force's production cost reduction plans (PCRPs) in the F-22 program. The majority of the issues discussed during the hearing focused on the draft GAO Report titled "F-22 Total Production Cost Estimates Exceed Congressional Limitation." This report focused on OSD and Air Force F-22 production cost estimates which, according to the GAO report, exceed the F-22 cost cap of \$39.8B and differ by \$7.8B. CM Shays and CM Tierney's questions directed to GAO, OSD, and Air Force witnesses primarily addressed the discrepancy between the OSD and Air Force cost estimates and attempted to determine the root causes of the differences in the estimates. CM Tierney also focused questioning on the differences between the Air Force F-22 production Service Cost Position (SCP) of \$39.8B and the Air Force Cost Analysis Improvement Group estimate of \$40.8B. The hearing was brought to a close at 1300 due to another scheduled hearing taking place in the room. CM Shays asked the Air Force and OSD to return to finish the hearing next month. He specifically asked both departments to provide the subcommittee with more detailed information explaining the differences between the Air Force and OSD F-22 production cost estimates.

The Subcommittee was called to order at 1004.

## **OPENING REMARKS**

### **Chairman Shays**

Explained that he commissioned the GAO report to evaluate production cost control plans being relied upon to meet F-22 "affordability goals." Stated report indicates OSD and the Air Force have made progress but the departments have "yet to tame the persistent cost growth that has long plagued the program." Highlighted the differences in the DoD and Air Force F-22 production cost estimates adding both include "speculative savings and potential cost shifts." Ended remarks stating the goal of the hearing is a "clearer understanding of how the Air Force can achieve, not just plan," the ambitious F-22 production cost reduction program.

### **CM Tierney**

Referenced the 7 Dec 99 hearing on F-22 cost controls and said the Air Force has consistently underestimated program delays and cost estimates. Complimented the Air Force on production cost control plans (PCRPs) but added PCRPs are not a substitute for aggressive cost controls. Ended remarks stating savings realized from PCRPs are not being transferred back to the taxpayer, but being used to pay for rising F-22 program costs

### **CM Barr**

Wanted to make it clear he supports the F-22 because it is a highly capable, cost effective solution to counter current and potential threats not because F-22 final assembly takes place in his district.

## **WITNESS STATEMENTS**

### **Mr Li**

Outlined the purpose of the GAO report was to focus on determining the status of F-22 cost reduction plans and to compare the 1999 cost estimates developed by the Air Force and OSD. Highlighted two conclusions - first,

implementing some of the cost reduction plans will be challenging and second, both OSD and Air Force F-22 production cost estimates exceed the \$39.8B cost cap.

### **Dr Schneider**

Stated the F-22 has demonstrated technical progress that meets or exceeds the technical performance measures established for the program. Explained briefly the processes established by both the Air Force and OSD used to estimate F-22 costs. Stated the differences in F-22 cost estimations between the Air Force and OSD center on savings that will be realized on defined PCRPs and allowances made for savings on PCRPs that have not yet been fully defined - OSD estimates of savings generally lower.

### **Mrs Druyun**

Began by stating the F-22's attributes of stealth, supercruise, maneuverability, and integrated avionics are essential for enabling air dominance. Explained the Air Force SCP on F-22 production costs, stating the SCP of \$39.8B represents reasonable risk to manage the program and incentivize cost savings to remain with the Congressional cap. Discussed savings associated with F-22 PCRPs and provided several specific examples of producibility enhancements and lean manufacturing techniques that have been implemented in the F-22 program. Concluded with following three highlights:

1. The F-22 program is committed to a lean revolution in reducing production costs
2. Reduced production costs are being demonstrated in the first two firm fixed price post-Engineering, Manufacturing and Development (EMD) lots
3. Cost reduction initiatives will maintain the production program within the Congressional cap.

## **KEY COMMENTS, QUESTIONS, AND ANSWERS**

- **CM Shays** asked Mr Li to explain how OSD could estimate F-22 production costs at \$48.6B while the Air Force estimated the same costs at \$40.8B. **Mr Li** responded the professionals who estimate program costs can use different techniques. He also stated the fidelity of the cost estimate depends on the quality of the information used. **CM Shays**, asked Mr Li if he thought the OSD or Air Force estimate was more accurate. Mr Li stated he was unsure because there is a wide disparity as to the level of detail of information being used for the estimations and that OSD is not provided with PRCP details by the Air Force. **CM Shays** asked Mr Li whether the Air Force should be providing quarterly reports on the status of PCRPs to OSD. Mr Li responded affirmatively. **CM Shays** asked Mrs Druyun if PCRPs are simply offsetting the rising costs of the F-22 program. Mrs Druyun explained inflation indices established by the Office of Management and Budget have brought the cost cap down and many of the PCRPs are required to keep the program under the decreasing cost caps. She went on to say the F-22 production cost cap has decreased from \$39.8B to \$37.6B in part due to inflation adjustments (OMB inflation indices have proven to be less than actual inflation).
- **CM Tierney** asked Mrs Druyun to explain the Air Force SCP on F-22 production. Ms Druyun stated the SCP was \$39.8B -- AFCAIG estimate of \$40.8B minus \$1B in identified funds to cover production program risk outside the Five Year Defense Plan. She went on to say that the Air Force maintained the \$39.8B SCP, in part, to maintain pressure on program contractors. **CM Tierney** then asked why the \$1B in risk was not addressed in previous cost estimates. Mr Kammerer responded it was the decision of the AFCAIG to not include the \$1B in risk money in the Air Force SCP.

- **CM Barr** asked Mrs Druyun if she had any reason to believe the F-22 program would not meet the F-22 Congressional cost caps. Mrs Druyun replied she had no reason to believe the program would not meet the Congressional cost caps. **CM Barr** stated it is the job of the GAO, OSD, and the Air Force to continue to monitor the development and implementation of PCRPs, however, to demand certainty for hypothetical information (PCRPs yet to be implemented) is unreasonable. “Our fighting forces need the F-22 -- let’s not get bogged down with hypotheticals.”
- **Questions for the Record**

OSD and the Air Force were asked to return next month to continue the hearing providing more details on the differences in OSD and Air Force production cost estimates. Subcommittee staffers will include the specific questions the subcommittee would like explained in greater detail in a letter to both OSD and the Air Force.